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The influence of the audit report on the relevance of accounting information reported by listed Romanian companies

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Abstract

Information asymmetry determines investors to call for auditors services. The auditors offer through the audit reports, a professional, objective and independent opinion regarding the presentation in financial statements of the true and the fair view in the most significant aspects of the financial position and performance, in accordance with accounting framework. This paper aims to analyze the influence of the audit report, prepared for the financial statements of the listed companies, on the investors’ decision in the financial market regarding the stock acquisition or sale. These decisions have an important impact on the stock return, defined through the relative variation of the stock prices from a period to another. In order to reach this goal, the study has been carried out on a sample of 59 companies, listed on the Bucharest Stock Exchange (BSE), during the 2012 reporting period. The results achieved from the ANCOVA regression analysis indicate the influence of the auditors’ affiliation to the Big 4 but also the influence of the information provided by the audit report, regarding the audit opinion, and of the information from the financial statement on the stock return.

Keywords: accounting information, value relevance, audit report, audit opinion, Big 4

1. Introduction

In an efficient financial market, rational investors continuously look for those financial placements that can offer indications regarding the attainment of a higher return with minimum risk. Some of the risks investors are exposed to targets on one part regard the conflict interest between them and the managers, caused by the existence of an
informational mismatch, and on the other side, the possibility that the information given by the companies, especially through financial statements, might include significant distortions.

The reduction of the informational differences of the financial statements’ users, especially the investors and their providers is made through audit services, carried out on the financial statements by professional, objective and independent persons. The audit services are completed with audit reports, whose objective is to support the actual and possible investors’ decisions (Arens et al., 2012). As a mean of communication between the auditor and their users, the audit reports must be understandable, objective and accepted by users as a relevant information source. The relevance of the provided information of these reports is defined through the influence they have on investors in decision making, the users of the financial statements would not otherwise read the reports and take them into account when making decisions (Al-Thuneibat et al., 2008). The effect on the decisional process of the investors is materialized in the impact on prices of the stocks (Al-Thuneibat et al., 2008).

The objective of this paper aims at analyzing the influence of the audit report, prepared for the financial statements of the listed companies, on the investors’ decision on the financial market regarding the stock acquisition or sale. These decisions have an important impact on the stock return, defined through the relative variation of the stock prices from a period to another.

In order to reach this goal, the study has been carried out on a sample of 59 companies, listed on the Bucharest Stock Exchange (BSE), during the 2012 financial exercise. The results achieved from the ANCOVA regression analysis indicate the influence of the auditors’ affiliation to the Big 4 but also the influence of the information provided by the audit report, regarding the audit opinion and the stock return.

2. Literature review and hypothesis development

In most cases, investors don’t possess sufficient knowledge about the whole activity of a company regarding the value creation for shareholders or the dividend distribution. Nevertheless, investors must conduct certain estimations when making decisions by using any information that is available to them. The identification of the information sources that influence the stock prices from a period to another, and at the same time, of the risk sources regarding the impossibility of obtaining the desired profitability has been a continuous concern of investors (Ozoguz, 2009).

2.1. Determinant factors of the financial information relevance

The starting point of the analysis of the influence of the determining factors on the stock return is represented by the development of the evaluation model for the financial assets on the capital market, Capital Assets Pricing Models – CAPM (Markowitz, 1952; Sharpe, 1964; Lintner, 1965), respectively of the Arbitrage Price Theory – APT model (Butt et al., 2010). This last model has been developed as an alternative of the CAPM model, giving the possibility to study the influence of a greater number of factors on the stock return (Butt et al., 2010).

According to the literature, the determinant factors of the stock return are divided according to their coverage (Butt et al., 2010; Dragotă et al., 2009), in macroeconomic or external factors with influence on at international or national scale, unemployment level (Singh et al., 2011), the global domestic product (Singh et al., 2011), the industrial production index (Chen et al., 1986), the interest rate (Park and Choi, 2011), the monetary policy (Singh et al., 2011), market return (Chen et al., 1986), the general price level and the inflation rate (Singh et al., 2011; Chen et al., 1986), the price of several key assets, such as oil (Chen et al., 1986) an microeconomic or internal factors, influencing the activity of companies, that can be noticed through a judicial, commercial diagnostic of the human, technical and financial resources.

Internal factors are firm-specific, featuring the whole activities of companies: quarterly, biannual and yearly financial statements and their components, the audit report, the distribution of dividends, the management quality and actions, funding type, company dimension (Butt et al., 2010).

Dragotă et al. (2009) emphasize taking into account all the factors that can influence the stock value, regardless if they are registered in the financial statements or not. This is due to the fact that the actions are assets in the end, and that for the evaluation of each asset all the influences of factors must be studied and all needed information for the implementation of the three evaluation approaches must be interpreted.
Most studies have focused on the influence of the accounting information on the stock return or price. The analysis of the microeconomic financial factors influence on the stock return can be carried out through the traditional financial analysis using financial ratios (net result, operating income, financial profitability – Return on Equity – ROE, asset return – Return On Assets – ROA), through the analysis that uses derived factors of the value creation theory (economic value added – Economic Value Added – EVA, market value added – Market Value Added – MVA) and the analysis that is based on the market-offered information (market value – Market Value, EPS, the net asset reported to the market capitalization – Book-to-Market Ratio) (Merchant, 2006).

Some authors have focused on the study of the influence of traditional financial factors resulted from the financial statements over the stock return, concluding that the operating result is best related to the stock return, while the turnover and the global result reflect the smallest correlation coefficient (Dimitropoulos and Asteriou, 2009; Barton et al., 2010). Gentry and Shen (2010) have shown that amongst the factors that explain the stock prices the best, one may find the return on equity ratio (ROE). Martini and Khairurizka got to the same results (2009) (Martini and Khairurizka, 2009), emphasizing not only the positive impact of the financial profitability on the stock prices, but also the impact of the net margin (Net Profit Margin – NPM).

Though, the need of one qualified opinion regarding the faithful representation of the financial statements of all significant issues that target the financial position and performance, as well as all information regarding the activity have enforced the analysis of this opinion’s influence, presented in the audit report, on the stock return or price. Watts and Zimmerman (1986) suggest that audit services are fundamental for the efficient functioning of the capital markets, diminishing the agency risk.

2.2. The utility of the audit report for supporting investors’ decisions

The issue of the audit reports relevance for the financial statements users has been studied in experimental researches, respectively in papers that used historical data. While the experimental researches study the audit opinion relevance in the decisional process of financial statements users, historical data – based studies focus on the market reaction around the moment of the audit report communication (Ittonen, 2012).

The analysis of the audit report influence on the stock price or return is divided in the analysis of the impact of its content, especially the audit opinion, and on the other side, in the analysis of the auditor and namely the analysis of the Big 4 membership.

In terms of the content of one audit report, the literature has emphasized the most important reasons it might influence the stock price. First, the audit report can contain information that might affect the estimations and risks regarding future cash flows that might be achieved (Ittonen, 2012), information that is important for the shareholders. Second, the audit report can contain viable information regarding the company’s capacity to continue its activity. This situation is seen as confident by investors considering that auditors have access to companies’ internal information, the audit report reflecting this private information. Some authors (Dopuch et al., 1987; Czernkowski et al., 2009) suggest that the opinion regarding the continuity of the activity within the audit report is based on public information and thus, it can be anticipated through intermediate financial statements.

The existing literature of the audit opinion informational value, through the analysis of the impact on the stock price, is divided in two parts: studies that show the relevance of the report and studies that emphasize the lack of influence on the stock price as a result of already knowing the provided information (Gómez-Guillmón, 2008).

The auditing of financial statements carried out by a company in the Big 4 can also represent an influencing factor of the stock price. Investors appreciate the quality of the auditing service in terms of image, reputation and size of the auditing company. If a listed company aims to increase its stock price, it can choose a famous auditing company known by investors (Martinez et al., 2004). A company in the Big 4, considered a large company allows its employees, the auditors, to spend very much time with training and getting to know the latest technologies that are used in the field, thus developing their professional competences. A company in the Big 4 does not also depend on a single client, thus resisting the pressures of the client in terms of opinion freedom (Boone et al., 2010).

Financial statements audited by the great auditing companies reflect the reality more accurately, in terms of complete, neutral information with lack of errors compared to the financial statements audited by the rest of auditing companies. The auditing companies in the big groups are considered to provide quality auditing service, with a high
level of insuring the accurate image, thus diminishing the possibility that financial statements might be the subject of result, fraud or error management operations (Lee and Lee, 2013).

Information in the financial statements regarding the value of the achieved results, of equities, audited by the companies in the Big 4 explain more of the stock return variation, and as a result, they are considered to be more relevant than if they would be audited by non Big 4 companies. The ANCOVA regression analysis has been used together with the ANOVA regression type, comparing the indicators means of the two company types (audited by the Big 4 and audited by non-Big 4 companies) (Lee and Lee, 2013).

2.3. Hypothesis development

The literature in Romania regarding the determining factors of the stock return or price is mainly focused on the accounting information and less on the analysis of other qualitative factors.

Starting from the theoretical evidences presented previously, the following work hypotheses are tested in the study:

\[ H_1: \text{For Romanian listed companies, financial statements audited that are presented have a significant influence on the stock return according to the financial performance and position of the company, based on the accounting information.} \]

\[ H_2: \text{Depending on the opinion in the audit report and on the Big 4 auditor’s membership, there are significant differences between the average values of the stock return, determined by the company’s financial performance and position, based on the accounting information.} \]

3. Research methodology

The study aims at the analysis of the influence of the audit report elaborated at the release of financial statements on the investors’ decision expressed through stock return, defined by the relative variation of stock prices from one period to another.

In order to reach these objectives, the positivist perspective of the research suggests a deductive-inductive approach in elaborating, testing and validating the working hypotheses (Smith, 2003).

3.1. Target population and analyzed sample

The target population consists of the Bucharest Stock Exchange listed companies in the 2012 financial exercise which made the subject of legal financial auditing. At the end of the 2012 financial exercise, on the BVB section, 78 companies listed on the 1st, 2nd or 3rd category have been traded. 11 companies were eliminated from the target population, which were financial intermediates, monetary intermediates, mutual funds and other similar financial entities.

Of the 67 remained companies, 4 suspended and insolvency companies were also excluded at the time of the research, a company whose trading on the regulated market on 2nd category was February 26 2013, a company whose financial exercise is form October 1st to September 30th and whose financial statements are in compliance with the Order of the Public Finances Ministry no. 3055 from October 29th 2009 with subsequent changes and additions and two companies whose information for the analysis are not available.

The final sample consists of 59 companies based on the rational (unelected) survey (Jaba, 2002). According to the Order 1286 from October 1st 2012, trading companies whose assets are accepted for trading on a regulated market must elaborate financial statements according to IFRS.

3.2. Variables and data source

In order to achieve the research results, one started from the following quantitative variables, seen as basic in the literature regarding the relevance of financial-accounting information (Jaba et al., 2013). The data associated to these variables has been collected from the yearly financial statements (the balance sheet and the income statement).
Table 1. Numerical variables introduced in analysis

<table>
<thead>
<tr>
<th>Numerical variables</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>$X_1$ = Return on Equity (ROE)</td>
<td>Net Income / Shareholders Equity</td>
</tr>
<tr>
<td>$X_2$ = Return on Assets (ROA)</td>
<td>Operating Income / Total Assets</td>
</tr>
<tr>
<td>$X_3$ = Net Margin (NM)</td>
<td>Net Income / Turnover</td>
</tr>
<tr>
<td>$X_4$ = Financial Autonomy Ratio (FAR)</td>
<td>Shareholders Equity / Total Assets</td>
</tr>
</tbody>
</table>

In order to reach the set objective regarding the analysis of the audit report influence through the opinion and the auditing and the Big 4 membership of the auditor, companies in the sample were divided according to the auditing opinion in companies whose audit reports stated an *unqualified opinion*, or an *unqualified opinion but with observations* or companies whose audit reports contained an *qualified opinion*. Starting from the type and dimension of the auditor, companies in the studied sample were divided in companies whose auditor is in the Big 4 and companies whose auditor is not from the Big 4.

In order to emphasize the two classifications and the affiliation of companies with one of the categories presented in the study, two dummy variables will be used in the study to indicate the auditing opinion, the category of companies whose auditing opinion is unqualified, namely one dummy variable to reflect the type of auditor, the affiliation with the Big 4 being considered a reference category. Table 2 shows the used dummy variables as well as their values \{0; 1\}.

Table 2. Dummy variables introduced in analysis and their values

<table>
<thead>
<tr>
<th>Dummy variables (D_{i,0})</th>
<th>Values for the dummy variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>(D_{UO}) (D_{QO}) (D_{B4})</td>
<td>(D_{UO} = 1) (Unqualified opinion but with observations) and (D_{QO} = 0) (Unqualified opinion)</td>
</tr>
</tbody>
</table>

In terms of the dependent variable, it is represented by the stock return or the added value of the stock (*Capital Gained Yield – CGY*), calculated as relative variation of the price of one stock from the immediate date following the General Assembly of Shareholders when both financial statements and the audit report have been approved, compared to the stock price at the end of the 2012 financial exercise.

All the ratios involved in the study were calculated for each company based on the information provided by the site of the Bucharest Stock Exchange, www.bvb.ro, regarding the history of the daily stock quotation and on the financial statements and the audit report presented on the site of the Romanian National Securities Commission, www.cnvm.ro.

3.3. Data analysis methods

In order to achieve the research results, the ANCOVA regression models were used. Within the ANCOVA model, the dependent variable is quantitative, while the independent variables can be both quantitative scale type and alternative dummy type (Gujarati, 2003). The ANCOVA model is the following:

\[
Y = \delta + \alpha_1D_{UO} + \alpha_2D_{QO} + a_3D_{B4} + \beta_1X_1 + \beta_2X_2 + ... + \beta_iX_i + ... + \beta_jX_j + \beta_{j+1}(X_{j+1}D_{UO}) + \beta_{j+2}(X_{j+2}D_{QO}) + \beta_{j+3}(X_{j+3}D_{B4}) + ... + \beta_{j+i}(X_{j+i}D_{UO}) + \beta_{j+i+1}(X_{j+i+1}D_{QO}) + \beta_{j+i+2}(X_{j+i+2}D_{B4}) + ... + \beta_{j+i+j}(X_{j+i+j}D_{UO}) + \beta_{j+i+j+1}(X_{j+i+j+1}D_{QO}) + \beta_{j+i+j+2}(X_{j+i+j+2}D_{B4}) + ... + \beta_{j+i+j+k}(X_{j+i+j+k}D_{UO}) + \beta_{j+i+j+k+1}(X_{j+i+j+k+1}D_{QO}) + \beta_{j+i+j+k+2}(X_{j+i+j+k+2}D_{B4}) + ... + \beta_{j+i+j+k+n}(X_{j+i+j+k+n}D_{QO}) + \beta_{j+i+j+k+n+1}(X_{j+i+j+k+n+1}D_{B4}) + \varepsilon
\]

(1)

where: \(\delta, \alpha_1, \alpha_2, \alpha_3\) and \(\beta_{l=0,\ldots,n}\): are the parameters of the regression model; \(X_{k=1,\ldots,j}\): independent variables, represented by the financial ratios; \(D_{UO}\) and \(D_{QO}\): dummy variables, associated with the audit opinion; \(D_{B4}\): the dummy variable, associated to the type of auditor; \(\varepsilon\): a random variable \(\sim N(0, 1)\).
This model also emphasizes the interaction, the $X_kD$ product, with $k=1,...,j; t=1,...,3$, of the scale type quantitative variables (financial ratios) and the alternative dummy variables, which emphasize the type of audit opinion, respectively the Big 4 auditors’ membership.

Data processing was carried out using the SPSS 20.0 statistical software.

4. Research results and discussions

The first step in achieving the research results consists of eliminating the outliers. Values that were less that the value associated to percentile no 5 were replaced by that values, while values that were higher that the value of percentile no 95 were replaced with the value of that percentile.

The second step of the regression analysis consists of checking the normality conditions regarding the variables in the analysis. Subsequent to testing these conditions, independent variables need processing so that their values follow a normal distribution law $N(\mu, \sigma^2)$. Table 3 shows numerical variables resulted from the normalization operation using logarithms or by extracting the square root (Jaba, 2003).

<table>
<thead>
<tr>
<th>Initial variables</th>
<th>Normalized variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>$X_1$=Return on Equity (ROE)</td>
<td>Ln(ROE)</td>
</tr>
<tr>
<td>$X_2$=Return on Assets (ROA)</td>
<td>Ln(ROA)</td>
</tr>
<tr>
<td>$X_3$=Net Margin (NM)</td>
<td>Ln(NM)</td>
</tr>
<tr>
<td>$X_4$=Financial Autonomy Ratio (FAR)</td>
<td>SQRT(FAR)</td>
</tr>
</tbody>
</table>

The first results of the research focus on the averages that were obtained for each category, averages that are shown in Table 4.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Audit opinion</th>
<th></th>
<th>Auditor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unqualified opinion $n_1' = 37$</td>
<td>Unqualified opinion with observations $n_2' = 4$</td>
<td>Qualified opinion $n_3' = 18$</td>
<td>Big 4 $n_1'' = 18$</td>
</tr>
<tr>
<td>ROE</td>
<td>0.0375</td>
<td>0.2084</td>
<td>0.0755</td>
<td>0.0784</td>
</tr>
<tr>
<td>ROA</td>
<td>0.0385</td>
<td>0.0267</td>
<td>0.0151</td>
<td>0.0497</td>
</tr>
<tr>
<td>MN</td>
<td>0.0436</td>
<td>-0.0551</td>
<td>-0.0613</td>
<td>0.0281</td>
</tr>
<tr>
<td>FAR</td>
<td>0.6844</td>
<td>0.4091</td>
<td>0.4400</td>
<td>0.6104</td>
</tr>
<tr>
<td>CGY</td>
<td>0.2949</td>
<td>0.0106</td>
<td>0.0616</td>
<td>-0.0911</td>
</tr>
</tbody>
</table>

(Source: own processing in SPSS 20.0)

Starting from the type of the audit opinion, the category with the fewest statistical units targets the (unqualified audit opinion but with observations). For most of the companies (37 companies), the auditor has issued an unqualified opinion, while for 18 of the, the opinion in qualified. By comparing the average of the variables on the two categories, unqualified and qualified, one can notice that the average of the financial return is lower for the first category compared to the second one. Such a situation can be explained based on the existence of eventual through manipulations of the accounting results and by carrying out result management activities that do not comply with the IFRS, in order to attract potential investors by emphasizing higher yields.

Within the studied sample, one can notice that the qualified opinion is formulated for the financial statements of the companies that reported low values of ROA. Such companies emphasize an operating activity that record low yields (1.51%), which reflect the managers’ inability to manage the assets, used for the operating activity. This fact is also supported by the registered values of the NM. Positive values of this ratio reflect the company’s capacity to continue its activity, by registering profit, on whose base dividends can be offered. In this case, one can also notice that the auditor’s opinion supports the reality of the company’s registered results.

In the case of companies that reported positive ROE values (0.0755) but which record negative NM values (-0.0613) qualified audit opinion have been elaborated. These results emphasize the existence of problems within...
the operating activity the achieved results might be influenced by the result management operations. This would have lead to market manipulation and implicitly to investors’ manipulation. In conclusion, one can assume that companies that accurately present their position and performance are given a favorite, unqualified opinion that causes the consolidation of the investors’ trust regarding the reported financial information and to the growth of the stock attractiveness on the market.

In terms of the auditor type, average values of the financial indicators that belong to companies whose auditors are members of the Big 4 are superior to the ones of those companies whose auditors does not belong to the Big 4. This phenomenon can be explained through Big 4 companies’ preferences to accept efficient companies, with low risk levels, which causes the elaboration of unqualified opinions. In some cases, this preference of Big 4 auditors can also be explained by practicing higher audit and non-audit fees. Regarding the reaction of the market to the financial information that is presented in the audited statements by auditors that do not belong to Big 4, one can notice the emphasizing of positive market yields. Such a situation can be explained by the trust investors give to the elaborated audit report, based on the submitted opinion.

In the case of companies that are audited by auditors from the Big 4, these averagely report negative market yields. By reporting to the literature, it can be explained through the fact that auditors in Big 4 also accept audit mandates of companies that are not attractive on the financial market, while complying with the professional ethics. For such companies, the independent and objective opinion of the auditor belonging to Big 4 is essential for the investors’ decision making and it ensures the existence of the accurate overall view of the financial statements.

In order to test the working hypotheses, data analysis implies the achievement of three results sets, firstly considering the financial information and the auditors’ opinion (model 1), secondly the financial information and the auditors’ Big 4 membership (model 2 and 3) and thirdly, the financial information, the audit opinion and the auditors’ Big 4 membership (model 4). These results are shown in Table 5.

<table>
<thead>
<tr>
<th>Model 1</th>
<th>Variables</th>
<th>Coefficients</th>
<th>t (test)</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>R² = 0.308</td>
<td>Ln(ROA)</td>
<td>-0.105</td>
<td>-2.471</td>
<td>0.018</td>
</tr>
<tr>
<td>F test = 4.003</td>
<td>Ln(NM)</td>
<td>0.128</td>
<td>3.189</td>
<td>0.003</td>
</tr>
<tr>
<td>Sig. = 0.009</td>
<td>Sqrt(FAR)</td>
<td>-0.415</td>
<td>-1.920</td>
<td>0.063</td>
</tr>
<tr>
<td></td>
<td>Ln(NM) · DUO</td>
<td>0.067</td>
<td>1.812</td>
<td>0.078</td>
</tr>
<tr>
<td></td>
<td>(Constant)</td>
<td>0.478</td>
<td>2.460</td>
<td>0.019</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Model 2</th>
<th>Variables</th>
<th>Coefficients</th>
<th>t (test)</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>R² = 0.330</td>
<td>Ln(NM)</td>
<td>0.495</td>
<td>3.692</td>
<td>0.001</td>
</tr>
<tr>
<td>F test = 9.343</td>
<td>DB4</td>
<td>-0.257</td>
<td>-3.323</td>
<td>0.002</td>
</tr>
<tr>
<td>Sig. = 0.001</td>
<td>(Constant)</td>
<td>4.495</td>
<td>4.812</td>
<td>0.000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Model 3</th>
<th>Variables</th>
<th>Coefficients</th>
<th>t (test)</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>R² = 0.322</td>
<td>Ln(NM)</td>
<td>0.096</td>
<td>3.216</td>
<td>0.003</td>
</tr>
<tr>
<td>F test = 9.036</td>
<td>Ln(ROA) · DB4</td>
<td>0.095</td>
<td>3.242</td>
<td>0.002</td>
</tr>
<tr>
<td>Sig. = 0.001</td>
<td>(Constant)</td>
<td>0.434</td>
<td>4.507</td>
<td>0.000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Model 4</th>
<th>Variables</th>
<th>Coefficients</th>
<th>t (test)</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>R² = 0.436</td>
<td>Ln(ROA)</td>
<td>-0.073</td>
<td>-1.895</td>
<td>0.066</td>
</tr>
<tr>
<td>F test = 4.420</td>
<td>Ln(NM)</td>
<td>0.135</td>
<td>4.014</td>
<td>0.000</td>
</tr>
<tr>
<td>Sig. = 0.001</td>
<td>Ln(ROE) · DB4</td>
<td>0.186</td>
<td>2.332</td>
<td>0.026</td>
</tr>
<tr>
<td></td>
<td>Ln(NM) · DB4</td>
<td>-0.188</td>
<td>-2.222</td>
<td>0.033</td>
</tr>
<tr>
<td></td>
<td>Ln(ROA) · DB4</td>
<td>0.086</td>
<td>2.966</td>
<td>0.005</td>
</tr>
<tr>
<td></td>
<td>(Constant)</td>
<td>0.315</td>
<td>2.626</td>
<td>0.013</td>
</tr>
</tbody>
</table>

(Source: own processing in SPSS 20.0)

According to data in Table 5, following the analysis of the collected date, four significant econometric models have been identified, whose equations are presented below.

**Model 1:** \[ CGY = -0.105 \times \text{Ln}(ROA) + 0.128 \times \text{Ln}(NM) - 0.415 \times \text{Sqrt}(FAR) + +0.067 \times \text{Ln}(ROA) \times DB4 + 0.478 \]  

(2)

The first regression model reflects the influence of the accounting information on the market yield of one stock, knowing the auditor’s opinion. One can notice that the net margin ratio has a positive influence on the stock return, mainly caused by the possibility of dividends sharing from the registered accounting results. At the same time, a growth of the financial autonomy has a negative impact on the stock return, caused by the growth of major shareholders’ influence, whose decisions can affect the dividend sharing policy. The negative influence of ROA on
CGY can be explained by the investors’ lack of trust in the operating activity results which are reported by the company that can be affected by the eventual result management operations. But associating one unqualified opinion with the financial statements strengthens the investors’ trust and indicates the fact that the company’s registered ROA helps the growth of the stock return.

**Model 2:**  
\[ \text{CGY} = 0.495 \ln(\text{NM}) - 0.257 \cdot \text{DB4} + 4.495 \]  

The second regression model reflects the NM influence and also the Big 4 membership of the auditor, on the stock return of one BSE listed company. One can notice the same positive influence of the NM on the CGY, but also a negative influence of the Big 4 membership on the same index, the CGY. Emphasizing the positive results following sales, leads to the stock attractiveness growth on the financial market and subsequently of their return. But auditing financial statements by the Big 4 auditors requires more caution when analyzing the accounting results by investors and guarantees the inexistence of result management operations.

**Model 3:**  
\[ \text{CGY} = 0.096 \ln(\text{NM}) + 0.095 \ln(\text{ROA}) \cdot \text{DB4} + 0.434 \]  

The third regression model, similar to model no. 2, also takes into account the influence of the operating results, under the terms of a Big 4 auditor auditing of financial statements. One can notice that the operating activity results of companies audited by Big 4 auditors lead to the achievement of much higher market returns compared to the results reported by companies that are audited by non Big 4 auditors. The quality of undertaken missions of Big 4 auditors, their objectivity, independence and professionalism lead to the growth of the investors’ trust in the audited financial statements and reported information of the listed companies.

**Model 4:**  
\[ \text{CGY} = -0.073 \ln(\text{ROA}) + 0.135 \ln(\text{NM}) + 0.186 \ln(\text{ROE}) \cdot \text{DQO} - 0.188 \ln(\text{NM}) \cdot \text{DQO} + 0.086 \ln(\text{ROA}) \cdot \text{DB4} + 0.315 \]  

The regression model that mostly explains the stock return variation (43.60%) is model 4, which considers, alongside the accounting information and the auditor’s opinion, the Big 4 membership. With a 90% trust, both financial return and the audit opinion, respectively the auditor’s Big 4 membership, influence the price or added value of the stock. The financial autonomy ratio, as well as its interaction with the created dummy variables, is not considered significant enough to be included in the model, with a Sig higher than 0.100., in this case the audit unqualified but with observation opinion does not influence the stock return. In the case of a qualified opinion, a logarithm growth of ROE will cause a 0.186 growth of CGY, while a logarithm growth of NM will cause a 0.188 reduction of CGY. The Big 4 auditor’s membership also positively influences the investors’ actions. This is due to the trust investors give to big audit companies, especially due to the big financial scandals. With significant results, actual auditing companies try to provide quality services, avoiding errors in the past.

5. **Conclusions**

The results of the study lead to the achievement of the research objectives and the validation of the formulated working hypotheses. Thus, for the Romanian listed companies, information presented in the audited financial statements has a significant influence on the stock return, depending on the opinion in the audit report and on the auditor’s Big 4 membership. At the same time, depending on the opinion in the audit report and the auditor’s Big 4 membership, there are significant differences between the average stock return values, determined by the company’s performance and financial position, expressed through the accounting information.

Analytically, based on the four estimated econometric models, one can notice that the return provided by a stock is directly and positively influenced by the reported accounting results. Though, the formulated audit opinion, as well as the auditor’s Big 4 membership require more caution form the investors when making financial market decision. The quality of the provided audit services of the Big 4 auditors lead to investors’ growth in the reported financial statements, regardless the formulated audit opinion.
The limits of the study are mainly determined by the reduced size of the analyzed sample, resuming itself to registered observations for a single financial exercise. The future directions of the research target the inclusion of observations for more financial exercises and the study of temporal interdependences or ones determined by the company specific, through panel analysis.

References


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